Country/Market: Croatia
Capital: Zagreb
Population: 4.32 million
Languages: Croatian
Monetary Unit: Kuna (KN)
Exchange Rate: 1 USD=5.633590 KN (Croatian National Bank mid exchange rate on Dec 8, 2004)
GDP per Capita: $6,484

1. Market overview and trends

The year 2005 will be marked by full liberalization of telecommunication services in Croatia. Already at the end of 2004, this opportunity was used by the second and third fixed telecommunications operators, Croatia's Optima Telekom and Portus, that purchased the license for EUR 5.2 million for a period of 30 years (Portus paid EUR 1.1 million for the license as the price was reduced). The Croatian Government subsequently introduced the guidelines for local loop unbundling, which became effective on January 1, 2005. In addition, guidelines regulating number portability and carrier preselection have recently been enacted. In the meanwhile, the price for the fixed telephony license has been reduced from EUR 5.2 million to EUR 1.1 million and then to a mere EUR 3 thousand, and a number of Internet service providers filed their applications for the fixed telecommunications license with the Croatian Telecommunications Agency.

The two existing mobile operators, T-Mobile (re-branded HT Mobile) and VIP Net, will also face competition soon as as Tele2 (Croatian-Swedish consortium) won the license for the third combined GSM/UMTS network in December 2004. Tele2 paid EUR 23 million for the combined GSM/UMTS license and is expected to start operations in the first half of 2005. Earlier this year, the two existing GSM mobile operators paid EUR 17.5 million each for UMTS licenses.

Mobile communications are the most developed market segment with penetration rate estimated at as high as 62 percent, while Internet penetration lags behind with penetration of only 18 percent. Broadband services are not yet widely accessible – DSL is available only in major cities, and Internet access via cable TV is offered only to a limited number of cable TV subscribers.

Total population of Croatia	4.43 million
Total number of employed people, end of 2003	1.36 million

Average net monthly salary	EUR 550

Below are the estimates for imports of telecommunications equipment in Croatia (figures in USD):

	2002	2003	2004
Total Market Size	708m	859m	950m
Total Local Production	450m	500m	550m
Total Exports	218m	293m	350m
Total Imports	476m	652m	750m
Imports from the U.S.	n.a.	4.4m	5m

(Sources: Croatian Chamber of Commerce, Croatian Statistics Bureau, Commercial Service Zagreb)

2. The marketplace for business process technology

According to the local branch office of IDC, spending on Enterprise Application Software (EAS) in Croatia increased by almost 57 percent in 2003, to USD 23,17 million (expressed in local currency the increase was 35 percent). SAP was the dominant supplier with approximately 25 percent market share. Foreign vendors held a 44 percent market share, and this percentage is expected to increase as they localize and adjust their solutions to the growing Croatian market.

Combined sales of licenses and maintenance for Accounting, Process/sales order management and inventory management software accounted for 53 percent of EAS spending in Croatia in 2003.

Spending on IT services in 2003 in Croatia increased by more than 33 percent (in dollar terms) to USD 144.6 million (in local currency growth was a moderate 5.9 percent). Investments in IT services by banking and telecommunications sector were offset by reduced government spending. The market for IT services is quite diversified, with 25 vendors accounting for 61 percent of the market. The three leading companies are IBM Services, b4b (SAP) and a local company S&T. International providers of IT services accounted for less than one quarter of the market. Hardware and software support and installation services are the leading sub-sectors with almost 40 percent of total IT services spending, while software customization services are at the second position. The government (central and local combined) is still the largest spender in this area, followed by telecommunication companies and banking.

New operators will contribute to the growth of this market, as is the case with Optima Telekom, which recently implemented SAP’s business software worth HRK 6 million (EUR 800t).

3. The marketplace for communications technology

Company	Sector	Ownership	Revenues, EUR million (for 2003 if not stated otherwise)	Number of subscribers
Hrvatske telekomunikacije (HT)	fixed voice/data telecommunications	51% Deutsche Telekom, Government of Croatia	960	1.825.000
Cronet(GSM/UMTS)	mobile telecommunications	HT	390	1.340.000
VIPNET GSM Ltd. (GSM/UMTS)	mobile telecommunications	Mobilkom Austria	360	1.240.000
T-Portal	Internet	part of HT	n.a.	400.000
Iskon Ltd.	Internet	Adriatic Net Investors Ltd., CALPers, Proficio Inv. Fund	7,6	100.000
Digital City Media Ltd.	Cable TV	SEAF, SEAF Growth Fund, SEEF	2,5	40.000
Adriatic Kabel Ltd.	Cable TV	Copernicus Capital Partners Investment Fund	0,79	12.000

Hrvatske telekomunikacije (HT), 51 percent owned by Deutsche Telekom, is the incumbent operator in Croatia. HT has installed capacity that could serve 2.3 million subscribers, while the actual number of fixed telephony subscribers at the end of 2003 was 1.7 million (penetration rate of 39.6 percent). The company has 8,000 employees and generated revenues of EUR 960 million in 2003.
HT's EBIT margin of over 20 percent and robust net profit attracted a number of new entrants to the sector of fixed telephony. Optima Telekom alone undertook to invest EUR 50 million in its telecommunications network in the next four years.

Total number of mobile subscribers in Croatia at the end of 2004 was estimated at 2.58 million, approximately equally divided between HT Mobile and VIPNet, the only two GSM operators in Croatia. Recently, both operators purchased concessions for UMTS service at a price of EUR 17.5 million.

In 2003, HT mobile generated revenues of EUR 390 million with EBITDA of EUR 163 million. Approximately 11 percent of HT mobile's revenues came from roaming, and during peak season HT mobile served 412 thousand foreign mobile users in one day. In 2003, HT mobile invested more than USD 66 million in network development and 95 percent of goods and services were supplied locally.

VIPNet generated revenues of EUR 360 million in 2003 and EUR 167.1 million in the first half of 2004. Average revenues per user are (end of 2004 data) estimated at EUR 19.7 per month. With more than 70 registered SMS messages per user each month and a total of 1.4 million MMS messages in the first half of 2004, VIPNet generated 27 percent of its revenues from data traffic.

Mobile Communications	
Total number of mobile subscribers	2.54 million

Prices per minute for pre-paid users within a network (HT Mobile/VIPNet)	EUR 0,16/EUR 0.16
Price per 100kB of data via GPRS (cheapest tariff, subscription not shown)	EUR 0,12/EUR 0,2
Price per SMS message (HT Mobile/VIPNet)	EUR 0,05/EUR 0,06
Total number of SMS messages	+1 billion

The Internet market is probably the least developed of all telecommunication market segments in Croatia. There are only 6 (HTNet, Iskon, GlobalNet, At&T, Vodatel and VIPonline) significant ISPs and one academic ISP (CARNet), serving the total number of around 650,000 paying subscribers out of an estimated figure of 1.2 million users (Croatia's total population is 4.43 million). HTnet, a subsidiary of HT, has a major market share (approximately 60 percent in dial-up access and 45 percent in leased line market), with Iskon following (a 17.3 percent overall market share).

Internet (numbers of users and subscribers are estimated)	
Total number of Internet subscribers	650.000
Total number of Internet users	1.197.500
Price of dial-up connection (no subscription)	EUR 1,44 per minute
Number of ISDN subscribers	270.000
Number of DSL subscribers	30.000
Connection fee for DSL connection	EUR 0-EUR 120
Monthly DSL subscription	starting at EUR 15 (384/64KB) to EUR 89 (1.5MB/192KB)

After a period of consolidation, two major cable TV operators emerged as market leaders. Digital City Media (DCM) and Adriatic-Kabel have 40,000 and 12,000 subscribers, respectively. The total number of paying cable TV subscribers in Croatia is now estimated at 100,000.

Cable TV	
Total number of cable TV subscribers	100,000 (estimate)
Price for basic program package	starting at EUR 3 per month
One-time connection fee	EUR 52

Price for Internet access via cable	starting at EUR 23/month + EUR 2/month for cable modem rental

4. The marketplace for Digital equipment and systems

In 2003, 158,787 PCs were sold in Croatia, a 9 percent increase over 2002. Of this figure, desktop computers accounted for 126,273, while 27,924 laptops were sold (a 44 percent increase). A total of 4,590 x86 servers were sold, which represents an increase of 40.4 percent compared to 2002. HP is the leading vendor among brand name computers, followed by IBM and Dell. Local OEMs held a 64.9 percent of the market.

A local manufacturer Koncar-INEM recently presented its new laptop PC "Nora 12" with an Intel Pentium M "Dothan" processor running at 1.6 GHz, a 12.1" XGA TFT screen, double-sided DVD recorder and a wireless LAN connection. Koncar-INEM generates revenues of approximately EUR 20 million per year and is the leading IT engineering company in Croatia.

Sales of printers increased by 22,1 percent to 144.660 during the same period, which translated into USD 26.78 million. Almost 70 percent of this figure were inkjet printers, 24.4 percent b/w laser printers, and 1 percent color laser printers. HP is the leading brand, followed by Epson and Lexmark.

5. Future prospects in this market

The third mobile operator and the new fixed telecommunications operators will be the main driving forces in the Croatian ICT market in 2005, as the law requires them to invest into their infrastructure. This alone will translate into more than EUR 100 million of investments in the next couple of years.

In addition to that, the Croatian Telecommunications Agency recently published a tender for the fourth GSM license with a price of HRK 105 million (approximately USD 19 million).

Ericsson and Siemens are the two traditional suppliers to fixed and mobile operators; both firms have manufacturing/servicing subsidiaries in Croatia. In 2003, Siemens Croatia employed 1016 people and recorded revenues of approximately EUR 135 million, while Ericsson Nikola Tesla d.d. had 1022 employees and generated revenues of EUR 205 million.

6. Important USDOC resources in this market

For additional information on sales opportunities please contact:

Miroslav Nikolac (Mr.)
Commercial Service, U.S. Embassy Zagreb

10002 Buzin
Croatia
Tel. +385 1 661 2026
Fax. +385 1 661 2446
E-mail Miroslav.Nikolac@mail.doc.gov
www.buyusa.gov/croatia